

Innovation in consulting firms: an area to explore.

Abstract (English): Services are the most representative sector in developed economies due to their contribution to GDP and employment. Consulting firms are classified as part of the Knowledge Intensive Business Services (KIBS) and provide professional services to all types of organizations. Consulting firms usually innovate with their customers and suppliers in a nurturing environment for value co-creation. This environment is project-based, process-oriented and with intensive knowledge exchange among all stakeholders. Based on literature review, it has been found that despite the existence of frameworks for service innovation, none of them have specifically focused on consulting firms. Further implications on this issue are addressed for both academics and practitioners.

Keywords: Service innovation; Consulting firms; Value co-creation; Knowledge-intensive

1 Introduction

There is a need for service innovation as an interdisciplinary science to help make innovation more systematic and sustainable; therefore, it has become a priority (Maglio & Spohrer 2013). Some decades ago, a country's economy relied on manufacturing, but nowadays services are driving productivity, economic growth and employment; forcing organizations to adopt a service-centric view in their existing business models (Salunke, Weerawardena & McColl-Kennedy 2011).

In order to survive, and organization has to evolve, in other words, it has to innovate. Different authors identify the benefits for an organization who innovates in services (Furseth & Cuthbertson 2013; Ganz, Satzger & Schultz 2011; Hidalgo & D'Alvino 2013; Imf & IBM 2007; Kidström, Kowalkowski & Sandberg 2013; ; Maglio & Spohrer 2013; Mors 2010; Salunke, Weerawardena & McColl-Kennedy 2013). It does not matter in which part of the life cycle companies are (start-ups, developing and mature ones), nor their size (from small to medium and large enterprises) nor performance (leaders or followers in their market); they all need to become competitive in their own markets.

Current developed economies – as well as many developing ones – are based on services, representing in most case more that 70% of the GDP and more that 80% of total jobs in these economies (Ifm & IBM 2007; OECD 2013). Taking into account both the importance of service in economy and the evolution that companies must pursue, Sanz & Jones (2013) argue that innovation is the mechanism that enables countries to transform challenges into opportunities. It is a source of integration, development, added value and new markets that generate income and wealth.

Consulting firms are organizations that belong to the services sector and are part of the Knowledge Intensive Business Services (KIBS) that have proven to be very innovative firms that boost economies. Consulting firms provide service innovation through the co-production of the service that they deliver in interaction with its customers and suppliers. A preliminary literature review has been conducted about frameworks for service innovation focused in consulting firms and the findings are further developed and explained. In the next sections, additional implications for research on this issue are addressed for both academics and practitioners as part of the conclusions of this paper.

2 Service Innovation and Consulting Firms

2.1 Service Innovation

Service innovation can be understood in different views. There are many key themes when reviewing service innovation since it incorporates knowledge and offering co-created by connected resources such as customers, suppliers and employees which impacts sales and costs enhancing competitive advantage. It also differs from manufacturing innovation and there are many theoretical perspectives but little attention to the mechanisms to combine resources in service firms leading to service innovation (Salunke, Weerawardena & McColl-Kennedy, 2013).

Table 1 summarizes some recent perspectives about service innovation stated by diverse authors. Some researchers have a traditional novelty-oriented view (European Commission 2012b; Quintane et al. 2011); while others consider service innovation as a result of knowledge (Quintane et al. 2011; Salunke, Weerawardena & McColl-Kennedy 2011) or a service system (Ifm & IBM 2007; Maglio & Spohrer 2008; Vargo & Lusch 2004). There is also a relational approach emphasizing the role of customers and a network of actors as co-creators of service innovation (Chae 2014; Hidalgo & D'Alvino 2014). There was found no

customized or exclusive service innovation standpoint in the context of consulting firms.

Table 1. Viewpoints on Service Innovation

Viewpoint	Definition	Authors
<i>Novelty</i>	Service innovation is a duplicable, new or significantly improved service concept and offerings	European Commission, 2012b; Quintane et al. 2011
<i>Knowledge</i>	Service innovation is the extent to which new knowledge is integrated by the firm into service offerings, which directly or indirectly results in value for the firm and its customers/clients	Quintane et al. 2011; Salunke, Weerawardena & McColl-Kennedy 2011;
<i>Value network</i>	Service value network is a set of activities where suppliers, service provider and customers integrate resources through service, and customer co-creates value in a specific cultural environment with service provider value proposal.	Chae 2014; Hidalgo & D'Alvino, 2014
<i>Service system</i>	Service system is a dynamic value co-creating configuration of resources, including people, technology, organization and shared information, connected internally and externally by value propositions, with the aim to meet customer's need better than competitors.	Ifm & IBM 2007; Maglio & Spohrer 2008; Vargo & Lusch 2004

2.2 Consulting Firms

Wright, Sturdy and Wylie (2012) explain that consulting firms are organizations that act as change agents (both internal and external) and are often characterized as a key source of innovation, promoting “best practices” usually perceived as radical innovations. They also discuss that although consulting firms have been criticized because they standardize best practices, this knowledge standardization leads to innovation with their customers.

Anand, Gardner and Morris (2000) argue that the importance of consulting firms for knowledge-based innovation relies on their: 1) Expertise and competence of their personnel are their main assets; 2) Widespread use of the partnership form of ownership; 3) Inherent imperative for both organic growth and diversification on the context of innovation. And in project-oriented environments such as consulting firms, there is a need to understand how managers are to create new resources combinations and strategically deploy outcomes that leads to service innovation (Salunke, Weerawardena & McColl-Kennedy 2013).

Consulting firms usually innovate with their customers and suppliers in a nurturing environment for value co-creation. This environment is project-based, process-oriented and with intensive knowledge exchange among all stakeholders. Consulting firms operate in different industry categories such as: management, financial services and accounting, human resources, information technology, design, sales and marketing, national security, litigation and economic, etc. (European Commission 2012a).

Consulting firms are classified as part of the Knowledge Intensive Business Services (KIBS) and provide professional services to all types of organizations. Most studies on innovation in services have pointed to KIBS as the leading sub-sector regarding innovation and cooperation (Trigo & Vence 2012). KIBS are organizations that use and build knowledge as their primary raw material for their value-adding process (European Commission 2011; Hidalgo & Albers 2008;). Innovation, both incremental and radical, requires the conversion of knowledge into services as well as their successful diffusion into a society and/or market (Bouncken & Kraus 2013).

From an economic perspective, the Expert Panel in Service Innovation in the EU (2011) states the benefit of KIBS and therefore service innovation as follows: 1) Regions with strong KIBS sectors exhibit the highest prosperity levels in Europe. 2) The presence of a strong KIBS sector positively affects regional innovation performance. In this context, the European Union has decided to develop an economy based on knowledge and innovation. One of the services sectors that have this transformative capacity are KIBS, because they collaborate closely with customers and across sectors. Spain, Italy and Germany account together for the 65% top 23 largest KIBS regions at 66% top 9 KIBS employment (Expert Panel in Service Innovation in the EU 2011).

3 Frameworks for Service Innovation

Preliminary literature review has identified different approaches on service innovation, both in the academic and practitioner area, but they all do not focus exclusively in the context of consulting firms. It has also not been tested if the proposed frameworks apply in consulting when it comes to co-elevate the innovativeness with their employers, customers and suppliers.

Project-oriented firms are characterized by having long project life cycles where the provision of service often involves close collaboration with their clients, reflecting client input to innovation process (Salunke, Weerawardena & McColl-Kennedy 2011). Therefore, it is important that a model suitable for consulting firms considers an internal and external approach for service innovation.

Table 2 compiles some recent frameworks (denunciative but not limitative) on service innovation that could be used as a base for future research about consulting firms. Most of the authors propose a service innovation model based on their own perspective on service innovation. Some authors focus their model according to the source or reason of the innovation and the radicalism of the innovation (Chae 2012; Den Hertog, Van der Aa & De Jong 2011). In contrast, other authors centre their model in the collaboration with networks with customers, suppliers and other institutions (Battisti 2012; D'Alvano & Hidalgo 2012), while others have a co-relational view (Furseth & Curthberson 2013) encompassing elements that enable service innovation within and outside the firm.

Table 2. Recent frameworks for service innovation

Dimensions & Capabilities (Den Hertog, van der Aa & De Jong 2011)	Orientations (Chae 2012)	Attributes (Battisti 2012)	Process (D'Alvano & Hidalgo 2012)	Elements (Furseth & Curthberson 2013)
New service concept	Interactions	Network	Scan	Value
New customer interaction	(mutation, cross-over)	Diffusion	Focus	Business model
New business partner	Dimensions	Strategy	Resource	Service system
New revenue model	(customer-side, supply-side,		Implement	Customer experiences
New delivery system: personnel, organization, culture.	geographical/institutional)		Learn	Technology
New delivery system: technological			Lead	Tangible assets
			Co-operation	Financial assets
				People
				Intangible assets

4 Some examples from the practitioner's side

Consulting firms gain their competitive advantage from their ability to create and sustain knowledge resources and institutional capital based on legitimacy, reputation or relationships (Reihien & Nikolova 2010). It is important when consulting firms realize this matter and incorporate innovation managements into their strategy and operation, not only with their employees but also with the customers and suppliers.

Table 3 lists some real examples about innovation practices that are performed by consulting firms. Most of these firms are focusing on innovation co-creation through collaboration their customers, integrating them into the project activities and having strong team interactions with continuous knowledge exchange. Some companies as is the case of KPMG, Fujitsu, Arup and Steria, have also recognized the importance to see innovation as a long term investment, so working with their

clients in the long run will allow them to foster not only the relationship but also the innovation outcomes. It is also remarkable the case of companies that have created their own innovation framework for service delivery, making part of their value, culture and produces the idea of thinking innovative and use it the benefit of the organization, its suppliers and clients.

Table 3. Innovation practices examples in consulting firms (CBI 2008)

Company	Area	Innovation practices
Arup	Construction design and business consulting	Arup established a Design Technology Fund for internal research and a core innovation group that leads intra-collaboration and 'ideation'. It has external collaborative projects with other universities, institutions and governments. It works in the planning and design of the world's first eco-city Dongtan in China.
KPMG	Audit, tax and advisory services	KPMG has a Head of Innovation and an innovation process with a system based on 12 pillars: leadership, definition, investment, innovation communities, wider firm, ideas from anywhere, sharing culture, rewards, skills and behaviors, make it real, metrics and brand.
Fujitsu	IT management and outsourcing services	For Fujitsu, a successful innovation is only possible when it constantly collaborates with its customers through multiple point of contact. It has a culture based on the Fujitsu Services Innovation methodology. It takes a long term approach to innovation and measures several aspects of the services experience provided to customers to ensure this.
Steria	IT services and business consulting	Steria strives to close collaboration with customers. It acts as a hub in the innovation supply chain integrating customer needs with software developers to customize systems and software packages.

5 Conclusions

Consulting firms have a predominant role in service innovation research among other KIBS because these types of organizations have proven to be innovative and foster the economy. Besides, it is believed that consulting firms have a nurturing environment for service innovation to arise since the consulting service delivery is distinguished by being project-based, process-oriented, as well as intensive knowledge exchange and value co-creation among the consultants, customers and suppliers.

After preliminary literature review, there were identified some recent service innovation models but none of them focuses exclusively on service innovation in the context of consulting firms. Thus, there are still a field to study in order to have a clear comprehension on this matter.

From the academic perspective, it needs to be examined if consulting firms follow the same patterns as other service organizations, especially KIBS. Another interrogation is whether the frameworks developed for services innovation can be completely applied to consulting firms or if they need some customization in order to be more accurate. It is also important to understand the role of the consulting projects stakeholders in the innovation process (consultants, clients, suppliers, etc.). Finally, it would be relevant to understand how consulting firms manage innovation: strategy, structure, process, culture, learning and metrics.

From the practitioner side, consulting firms usually help their clients to innovation, but sometimes they do not apply the same approaches for service innovation within their own organization. From the real case examples, we can infer that most of consulting firms have acknowledge the importance of co-innovation while working with their clients, but only few have immerse innovation into their strategy, structure, culture and process. It could be useful for consulting firms to take a look into current service innovation models and try to implement the best practices that they think that are suitable for their own company.

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